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SIPDIS

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SUBJECT: THIRD-PARTY ACCESS TO GAZPROM'S PIPELINES MAY
BOOST GAS PRODUCTION; WON'T AFFECT EXPORTS

REF: A. MOSCOW 2816

[B.](#) MOSCOW 2802

Classified By: Econ MC Eric T. Schultz for Reasons 1.4 (b/d)

SUMMARY

[11.](#) (C) The GOR's calls for expanded third-party access (TPA) to Gazprom's pipelines reflect the influence of multiple factors, including a desire on the part of Putin and others to boost domestic gas production by independent producers and oil companies. Most analysts believe Gazprom will resist pressure for greater transparency and new rules that would diminish its control over TPA. However, most also believe that with Putin and Deputy Premier Igor Sechin leading the charge (ref B) on TPA, Gazprom may have little choice. That said, while TPA could have a meaningful impact on Russian gas production, it will almost certainly not affect Gazprom's export monopoly that is the major source of the company's revenues and power. End summary.

A RENEWED PUSH FOR TPA

[12.](#) (C) With Gazprom's production stagnating and various forecasts that Russia will have difficulty fulfilling its domestic requirements and its export commitments in the future, the GOR has stepped up its demands that Gazprom facilitate TPA to the Unified Gas Supply System (UGSS). By some accounts, Russia flares up to 60 billion cubic meters (bcm) per year of natural gas. Putin declared in 2006 that Russia should end gas flaring by 2011. Much of this gas, moreover, could be sent relatively easily into the Gazprom-controlled UGSS, appreciably boosting Russia's current gas production of approximately 640 bcm. While current law allows for TPA, independent producers and oil companies, which together account for about 15% of Russian gas production, complain that Gazprom hinders their access to the UGSS with unverifiable assertions of a lack of spare capacity and dubious denials based on "technical" reasons.

[13.](#) (C) Putin and Deputy Prime Minister Sechin are personally leading the charge on TPA, pushing for new rules and better Gazprom cooperation. Putin has even directly accused Gazprom CEO Alexey Miller of being responsible for obstructing TPA. Some analysts believe that the criticism of Gazprom is because the company has fallen out of favor with Putin and that its leadership has thus become a target. These analysts cite the company's underperformance as the reason, in

particular its failure to address future production challenges.

¶14. (C) Sechin, in his role as overseer of government energy policy has made TPA one of his main policy goals. Since Sechin is also chairman of state-owned Rosneft, Russia's largest oil company, TPA also serves his and his company's interests, as Rosneft would be one of the main beneficiaries of more transparent and economic third-party access to the UGSS. In addition, Sechin is widely said to personally dislike Gazprom's Miller, who he considers an adversary. Rosneft's Vice President for Finance, Peter O'Brien (strictly protect), told us November 8 that Sechin's animosity toward Miller "surely plays a role," but stressed fundamental economic fairness is the driver for the GOR's push on TPA.

¶15. (C) However, Shawn McCormick Vice President of International Affairs for TNK-BP, another potential beneficiary of TPA, told us November 8 that he believes Sechin is "sticking a knife into Gazprom while it's down." He said he believes TPA is being driven by Rosneft, but that all oil companies will benefit.

GAZPROM TO RESIST

¶16. (C) Gazprom, of course, has resisted and will continue to resist encroachment on its turf, power, and revenue streams. According to press reports, the head of the Federal Anti-Monopoly Service (FAS), Igor Artemiev, stated November 5 that the agency has failed to reach agreement with Gazprom on

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new TPA rules and that he hopes Putin will intervene in the negotiations. FAS has been working on rules that would require greater transparency with regard to pipeline capacity and a more specific definition of spare capacity, the main determinant of TPA rights. Presumably the new rules, if enforced, would limit Gazprom's ability to act arbitrarily to stifle access.

¶17. (C) Most analysts with whom we spoke believe that with Putin and Sechin involved, Gazprom will not be able to resist much longer. Alfa Bank chief strategist Ron Smith told us November 8 that enforced TPA is coming, noting that "Sechin is one of the top five most powerful people in Russia, and (Gazprom's) Miller is not." O'Brien and McCormick also predicted Sechin will make this happen, especially given Putin's backing.

¶18. (C) However, former Deputy Energy Minister Vladimir Milov, an expert on the Russian gas industry and now an opposition political activist, disagrees. He told us recently he is "one hundred percent sure that Sechin will lose" this battle against Gazprom because "Putin built up Gazprom as a system immune to influence." He predicted that Gazprom will manage to kill TPA enforcement using an army of technical specialists who will use a variety excuses to prevent implementation.

¶19. (SBU) In that regard, according to November 7 press reports, Gazprom has already appealed for an exemption to TPA until 2011, claiming it will be disadvantaged because third-party suppliers may be able to sell at unregulated prices while Gazprom receives lower regulated prices. Domestic gas prices, which are in the range of \$60 to \$75 per thousand cubic meters are scheduled to rise to "market prices," perhaps several times those figures, by 2011. However, few analysts believe such price increases will be politically possible and that the 2011 deadline is likely to be extended, reinforcing Gazprom's position on an exemption to TPA.

EXPORTS EXCLUDED

¶10. (C) Regardless of the effect of expanded TPA on domestic gas production, all of the analysts with whom we spoke discounted the notion that the GOR might go further and take away Gazprom's export monopoly, the main source of its revenue. Smith said "no way in hell" would the GOR allow any other set of hands on exports. O'Brien agreed, noting that the GOR sees its control of exports through Gazprom as serving the national interest.

¶11. (C) Gazprom's Director of Foreign Relations, Ivan Zolotov, told us recently (ref A) that TPA is not a major concern for Gazprom. While he agreed that independents and oil companies could produce up to 30% of Russia's gas within 15 years, he stressed that none of these companies would be allowed to compete with Gazprom in the export market. Neither Gazprom nor the GOR would allow "Russian gas to compete with Russian gas in the export market," Zolotov said, because that would result in lower prices for Russian gas.

COMMENT

¶12. (C) Expanded TPA would be a positive development, as it would create incentives for independent producers to increase production, in theory increasing Russian and global supply. It would also reduce flaring with its negative environmental consequences. However, we consider it highly unlikely that TPA will be allowed to erode Gazprom's status as Russia's most important "national champion." Like Milov, we can't see a day when even the domestic market will be truly competitive, let alone the export market. End comment.

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